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TAGS: [EFIN](#) [ECON](#) [EAID](#) [PGOV](#) [KMCA](#) [RP](#)

SUBJECT: Ambassador Raises Commercial Issues with Secretary of Finance

¶1. (U) Summary: In a meeting with GRP Secretary of Finance Gary Teves, Ambassador raised protection of private lending for small and medium enterprises, USAID exemption from taxes, progress on the MCA Threshold Program, and investment and trade disputes. Teves made no commitments, but indicated that he was working or would work for acceptable solutions to all these problems. End Summary.

¶2. (U) Ambassador requested a meeting with Secretary of Finance Gary Teves to deal with several issues currently facing his Department. As Typhoon Milenyo crashed through Manila, Ambassador met with Teves, his Undersecretary Bobbie Tan and Special Assistant Lea De Leon on September 28.

Trying to Save Private Lending for SMEs

¶3. (U) Ambassador opened the meeting by raising the issue of government lending to small and medium enterprise (SME). In August 2006, President Arroyo signed Executive Order 558 repealing another order from 1999 which had limited the public sector's role in direct and subsidized lending activities. EO 558 was signed without the clearance of Teves and other key members of the GRP economic team and has been heavily criticized by international institutions and financial institutions who believe the change will lead to subsidized and politically directed bad lending by the GRP and the destruction of the growing private market for SME lending.

¶4. (SBU) Press reported on September 27 that President Arroyo had assigned the task of writing implementing regulations and perhaps a clarifying executive order to Teves, who had been only slightly veiled in his public criticism of the EO 558 over the past weeks. Ambassador congratulated Teves on having taken on this important issue. She offered USAID technical assistance to the DOF in the development of these guidelines. The DOF need only let USAID know, and technical assistance would be forthcoming.

Tax Holidays at Clark and Tang Tax Dispute

¶5. (U) In response to a question by the Ambassador, Teves said that resolution of the issue of tax holidays for U.S. investors located at what had been Clark Air force Base though approved by the Philippine House of Representatives, may be difficult to get out of the Senate. (These benefits were overturned by the Supreme Court in July, 2005.) He suggested the Embassy work with individual senators and do so before the congressional recess at the end of October. Ambassador also raised the tariff reclassification of Tang drink mix as sugar by GRP Customs (leading to much higher tariffs), asking him what could be done to resolve this dispute. Teves promised to continue to see what could be done on this.

MCA Moving

16. (U) Teves said the GRP is making progress on its MCA Threshold program. The first meeting of the Program Steering Committee, including representatives from the Bureau of Internal Revenue, Customs, the Ombudsman and USAID will take place in early October. Ambassador mentioned that the USG will have a manager for the Philippines Threshold Program in place in October.

USAID Tax Exemption

17. (U) Ambassador raised the importance of exempting USAID assistance from GRP taxes. She noted that progress is being made in lower-level discussions on this important issue and pointed out that USAID must report tax assessments to the U.S. Congress and might have to reduce assistance levels in response. Teves evinced understanding of the problem and asked his Undersecretary to continue seeking a solution.

Comment: Teves Understated as Usual

18. (SBU) Teves was his understated self even as we watched the typhoon swirling across Manila Bay through the window behind him. Although he made no commitments in this meeting, that is usual for him. Still, he understands what needs to be done and generally seems to be working to get it done.

KENNEY